

## Third Quarter Spot Uranium Review

The third quarter ended with a bang, which was propelled by air being let out of the financial markets. Spot volume records were broken during the quarter, and while the spot price moved in both directions, it ended the quarter in a sharp downward spiral. Below is a review of last quarter's spot uranium activity.

**Price** – The spot price started the third quarter with an unseasonable price increase as buyers returned to the market pushing price to \$60 by the first week of July. From the \$57.00 low that was reported the third week of June, price jumped a total of \$7.50 to \$64.50 per pound by the middle of July. With this price turn, spot activity increased as a number of buyers that had been waiting for signals of a market bottom entered the market. After this spurt of demand was satisfied, the summer slipped back into its vacation mode, and the price then flattened at \$64.50 for a total of eight weeks (the longest week-to-week plateau since early 2005). As demand remained weak, sellers started lowering

prices to entice demand back to the market in September. Also, at this time financial markets started showing signs of strain preceding their ultimate crash. This event spilled over into the uranium market as a number of sellers, including groups of funds, needed to move uranium for financial reasons. By the middle of September, the spot price started a dramatic decline, ending the quarter at \$53.00 per pound, and, although the month posted record volumes, the price was still falling at month end.

**Volume** – As mentioned above, both July and September posted unseasonably high spot volumes, with September setting a monthly record at over 8.3 million pounds U<sub>3</sub>O<sub>8</sub> equivalent (see chart on page 4). For the quarter, a total of 59 transactions were booked involving 13.2 million pounds U<sub>3</sub>O<sub>8</sub>e. As shown in the chart below, this level is the highest third quarter volume on record and the highest quarterly volume since the first quarter of 1995. It is also the highest number of spot deals in a quarter, surpassing the previous record of 46 deals set last quarter. Before this, the highest number of deals reported in a quarter was 45 in the second quarter of 1990.

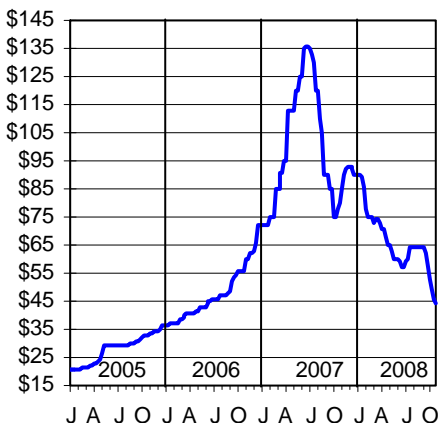
For the year, a total of 158 deals have been reported (including this month's activity), which easily surpasses the 2006 record of 134 deals, and is well above the 124 deal average set in the early 1990s when the spot market was consistently more active. These 158 deals involve 31.8

**Ux U<sub>3</sub>O<sub>8</sub> Price: (10/20/08)**  
**\$44.00 (-\$2.00)**

**Ux LT U<sub>3</sub>O<sub>8</sub> Price: (9/29/08)**  
**\$75.00**

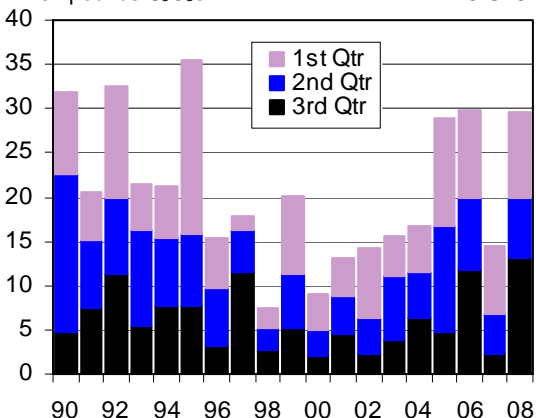
### Ux Weekly Uranium Spot Prices

US\$/lb U<sub>3</sub>O<sub>8</sub> © UxC



### Comparison of Quarterly Spot Volumes

Million pounds U<sub>3</sub>O<sub>8</sub>e © UxC



million pounds U<sub>3</sub>O<sub>8</sub>e (and this year is not over yet). This is an increase in the number of deals, but a downward adjustment of volume from what was reported in last week's *Ux Weekly*. In preparing this review, several deals were deleted from the database, including one fairly sizeable deal from earlier this year and a couple of deals over the past month where awards did not result in completed transactions. At the same time, several off-market deals from previous months have been confirmed to not duplicate existing deals and were added to the database.

One of the reasons why spot volume increased last quarter was that the average size of deals increased from under 150,000 pounds to over 225,000 pounds. There were several larger-sized deals that helped skew the average upward; without these, the average size falls closer to the lower levels seen over the past two years.

**Form** – Over the past three quarters, since the spot price crash in the late

summer of 2007, the preferred form by both buyers and sellers has been U<sub>3</sub>O<sub>8</sub>. Last quarter, however, the quantity of UF<sub>6</sub> once again increased and accounted for half of the volume. Straight U<sub>3</sub>O<sub>8</sub> made up the other half of the volume, with enriched uranium product (EUP) only accounting for about 1%. In terms of absolute volume, UF<sub>6</sub> set a new quarterly record at about 6.6 million pounds U<sub>3</sub>O<sub>8</sub>e. UF<sub>6</sub> has only been near this volume level during the first quarters of 2005 and 2006.

**Method & Need** – As has been the case for much of the last seven years, most of this year’s activity has occurred through quiet or so-called “off-market” means. As shown in the bottom chart on page 4, almost 95% of the third quarter’s volume was classified as off-market. With the continued high levels of “quiet” activity, it is not surprising to see that most of the volume is also classified as discretionary. Much of this, especially that of utility buying discussed below, has been very price sensitive and was a direct result of the steep price decline.

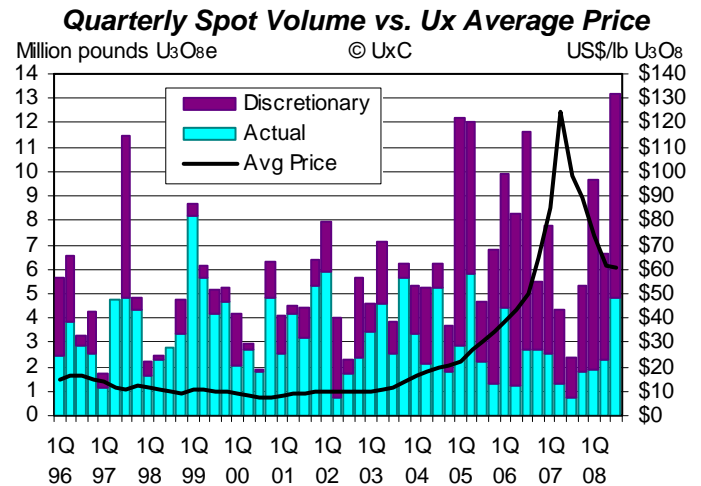
**Buyers & Sellers** – With the spot price falling back below the \$60 level in September, utility buying picked up considerably. As the price continued its downward slide, a number of utilities bought on the way down and this group made up 6.5 of the 8.3 million pounds U<sub>3</sub>O<sub>8</sub>e of the September volume. An-

other interesting note is the utilities’ increase in bidding, and learning the value of bidding the price down (as opposed to last year’s bidding the price up). On the seller’s side, the financial community definitely made a splash selling off notable quantities. But, this group was only part of the equation with traders, producers, and others actually accounting for higher quantities. For example, producers as a group accounted for 45% of the overall volume for the quarter.

**Fourth Quarter Outlook** – While it appears that large quantities of the aggressively-priced material has cleared the market, the fact that this aggressive selling was prompted by the financial meltdown, and the full impact of the meltdown has not yet played out, more aggressive selling is likely. In this respect, there are several pockets of material still looking for a home, but more could spring up later depending on what happens with respect to the larger financial situation.

At the same time, the current price levels are piquing the interest of a number of groups. Utilities, which have

been very active over the past quarter, are likely to continue to be active once the price bottoms out. However, for some utilities, buying activity for the year may be over as their year-end budgets may have now been spent on the recent activity, while others may not be able to access budget until next year. On the other hand, there are some utilities still waiting to see how low the price will go, and new activity is expected, although it is likely the volumes will be much lower than that posted in September. Other groups, including the financial community, have also voiced some interest over the past couple of weeks as the spot price has continued its downward spiral. Since most industry participants believe the spot price will recover next year, the questions now are how much further will price decline this year and when is a good time to enter the market.



<b>Uranium Spot Market Statistics</b>																	
(Million pounds U <sub>3</sub> O <sub>8</sub> equivalent, * includes activity through October)																	
	2005			2006					2007					2008			
	3Q	4Q	Yr.	1Q	2Q	3Q	4Q	Yr.	1Q	2Q	3Q	4Q	Yr.	1Q	2Q	3Q	Yr.*
<b>Total Volume</b>	4.7	6.8	35.7	9.9	8.3	11.7	5.5	35.4	7.8	4.3	2.4	5.3	19.8	9.7	6.7	13.2	31.8
# Transactions	15	25	110	33	34	41	26	134	25	26	15	39	105	41	46	59	158
Leadtime (mths)	4.4	2.9	4.4	3.6	3.9	3.0	3.1	3.4	2.8	2.8	3.1	2.5	2.7	1.9	1.6	2.5	2.0
<b>Form</b>																	
U <sub>3</sub> O <sub>8</sub> Total	2.0	5.1	20.4	3.4	4.6	5.6	2.7	16.3	3.8	2.3	0.8	4.0	10.9	7.1	4.5	6.5	20.3
UF <sub>6</sub> Total	2.6	1.6	14.8	6.1	3.4	5.9	2.8	18.2	3.8	1.8	1.6	1.3	8.5	1.8	2.1	6.6	10.6
EUP Total	0	0.1	0.5	0.4	0.3	0.2	0.0	0.9	0.2	0.3	0.0	0.0	0.5	0.8	0.0	0.1	0.9
<b>Need</b>																	
Actual	2.2	1.3	12.2	4.4	1.2	2.7	2.7	11.0	2.5	1.3	0.7	1.8	6.4	1.9	2.3	4.9	9.3
Discretionary	2.5	5.4	23.4	5.5	7.1	9.0	2.8	24.3	5.3	3.0	1.6	3.5	13.4	7.8	4.4	8.4	22.5
<b>Method</b>																	
On-market	0.6	0.9	5.9	1.6	0.9	2.9	0.8	6.2	0.9	1.1	1.3	0.7	4.1	1.1	0.8	0.8	3.1
Off-market	4.0	5.8	28.8	8.3	7.4	8.8	4.7	29.1	6.9	3.2	1.0	4.6	15.8	8.6	5.9	12.4	28.7

# News Briefs

## **Exelon makes all-stock offer for NRG**

On October 19, Exelon announced that it made an all-stock offer to acquire NRG. Exelon is offering a ratio of 0.485 of its shares for each share in NRG share, which adds up to a total value of around \$6.2 billion. Based on Exelon's closing price on October 17 for both companies' shares, the offer represents a premium for NRG's shares of around 37 percent, although over the past couple of months, the value of NRG's stock has declined by about 50 percent.

NRG's board of directors is currently reviewing Exelon's offer and has not yet made a decision on whether to recommend it to shareholders. Exelon has the largest nuclear capacity of any utility in the U.S., and NRG has a 44 percent stake in the South Texas Project nuclear power plant. NRG has also applied to build two new reactors at South Texas Project. If the proposed merger is successful the combined company will have a total electric capacity of around 47,000 megawatts, including 18,000 megawatts of nuclear power.

## **EPR in Finland faces additional delay**

According to both Teollisuuden Voima Oy (TVO) and AREVA, completion of Unit 3 at the Olkiluoto nuclear power plant in Finland could face further delays. Last year, Finland announced that the 1,600 megawatt European Pressurized Reactor, which originally was scheduled to come online in 2009, would be delayed until 2011. Last Friday, AREVA issued a press release warning that the reactor could be delayed until 2012, and a press release from TVO said construction of the reactor will last for several months beyond what was previously estimated. In its press release, AREVA stated, "Confronted with construction delays, the AREVA-Siemens consortium succeeded in convincing TVO that a number of measures

were required to accelerate and improve the program. TVO will be chiefly responsible for implementing these measures."

The reactor pressure vessel and one of the reactor's steam generators have been completed, and by the end of 2008, AREVA plans to release another update on progress towards completion. TVO stated that the supplier of the reactor is responsible for construction delays and any increase in costs; however, AREVA claims that TVO has taken several months longer than it agreed to under contract to validate certain documents and said that the AREVA-Siemens consortium has initiated arbitration proceedings for other aspects of its contract with the utility.

## **EDF abandons effort to acquire Constellation**

On October 15, Electricité de France (EDF) announced that it decided not to place another offer to acquire Constellation Energy. "Given the current state of financial markets and in particular the difficult credit market for corporates, and after discussion with several potential American partners, EDF has determined that current conditions are not conducive to presenting a new offer for Constellation Energy Group," said a press release from the utility. A previously submitted offer from EDF was rejected by Constellation's board of directors, which instead chose to go with an offer from Warren Buffett's MidAmerican Energy. EDF said that it remains committed to working with one or more U.S. utilities to build at least four EPRs in the U.S.

## **IAEA says more than 50 nations have expressed interest in developing nuclear power**

Over 50 nations have informed the International Atomic Energy Agency (IAEA) that they are looking at the possibility of using nuclear power, according to an October 16 press release from the United Nations. Of the 50 nations, about a dozen are actively working to develop

## Industry Calendar

- October 19-22, 2008  
**NEI Uranium Fuel Seminar**  
Nuclear Energy Institute  
<http://www.nei.org/newsandevents/>  
Westin Tabor Center  
Denver, CO, USA
- December 5, 2008  
**AtomEco 2008**  
Rosatom  
<http://www.eng.runtech.ru/node/451>  
Info-Space Business Center  
Moscow, Russia
- December 9-10, 2008  
**Nuclear Power Congress**  
American Conference Institute  
<http://www.nuclearcongress.com/>  
Naples Grande Resort  
Naples, FL, USA
- January 28, 2009  
**NEI Fuel Supply Forum**  
Nuclear Energy Institute  
<http://www.nei.org/newsandevents/>  
The Willard InterContinental  
Washington, D.C., USA
- February 9-12, 2009  
**African Mining Indaba '09**  
International Investment Conf.  
<http://www.iiconf.com/>  
Cape Town International Convention Centre, Cape Town, S. Africa
- April 21-23, 2009  
**World Nuclear Fuel Cycle**  
WNA/NEI  
<http://www.world-nuclear.org/>  
Sheraton on the Park  
Sydney, Australia
- May 9-13, 2009  
**U2009 Global Uranium Symposium**  
Colorado Mining Association  
<http://www.u2009.org/>  
Keystone Resort  
Keystone, CO, USA

Details are available at:  
<http://www.uxc.com/c/data-industry/uxc-calendar.aspx>

nuclear energy programs, including Vietnam and Turkey. The head of the IAEA, Mohamed ElBaradei warned that nations need to have realistic expectations regarding the time needed to establish nuclear power programs. "It can take a minimum of 10 years just to put the basic infrastructure in place. This is not an area where you can cut corners," said ElBaradei.

## Turkey could cancel nuclear tender

Today's Zaman has reported that Turkey could decide to cancel a tender for the nation's first nuclear power plant because only one bidder responded. The sole bidder was a consortium of two Russian companies, Atomstroyexport and Inter RAO UES along with Turkish firm Ciner Group. The Turkish Atomic Energy Agency (TAEK) has examined the offer and has found that it does not meet technological criteria. TAEK was concerned that the nuclear power plant proposed would make Turkey dependent on nuclear fuel from Russia. Although TAEK does not favor the bid, Turkey's cabinet will have the final say on whether it will be accepted or rejected. The cabinet will likely make its decision in about a week. Turkey is already dependent on Russia for a significant portion of its energy requirements including 60 percent of its natural gas.

## Survey looks at opinions of Obama and McCain voters towards nuclear power

Bisconti Research has released the results of a survey on opinions toward nuclear power of registered voters who expect to vote for either John McCain or Barack Obama. The survey of 1,000 registered voters found that 36 percent of the respondents favored Barack Obama and 31 percent favored John McCain. Seventy-two percent of re-

spondents who leaned toward Obama said they supported nuclear power, including 33 percent who strongly supported nuclear, while 27 percent opposed nuclear power, including 13 percent who strongly opposed nuclear. For respondents leaning towards voting for McCain, 86 percent supported nuclear power, including 55 percent who strongly favor nuclear, while 12 percent opposed nuclear power, including 4 percent who were strongly opposed.

The survey found that 74 percent of Obama supporters and 83 percent of McCain supporters favored continuing work on the Yucca Mountain spent fuel repository as long as it is in compliance with the Nuclear Regulatory Commission. Sizable majorities of both Obama and McCain supporters backed the use of spent fuel reprocessing.

About 75 percent of those backing McCain and 54 percent of those backing Obama knew that their own candidate's platform includes nuclear power. However, a smaller number of supporters of each candidate were aware that the other candidate's platform includes nuclear power. Eighty-seven percent of Obama supporters and 77 of McCain supporters said they favored granting federal loan guarantees to companies that construct power generation facilities that reduce greenhouse gas emissions including solar, wind, and advanced nuclear power plants, and 85 percent of supporters of both candidates favor tax

credits for these types of facilities.

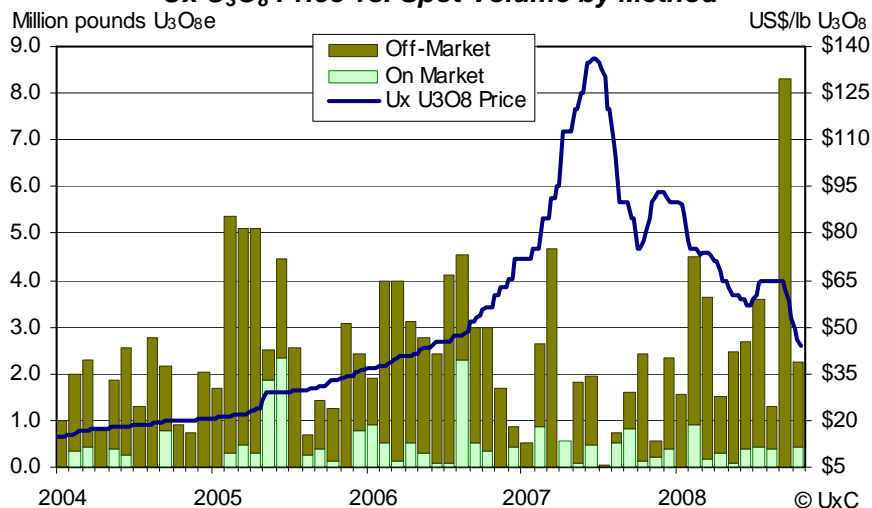
## Two reactors in Germany could outlive nuclear phase-out policy

Both RWE and EnBW have stated they plan to keep their oldest reactors in operation until at least 2010. RWE said Biblis A will be taken offline from February 27 to September 15, 2009 for an extended maintenance outage. On October 13, EnBW took Neckarwestheim 1 offline for an outage that will last at least six weeks. The reactors had previously been at risk for closure in 2009 under Germany's existing nuclear phase-out policy but are now expected to run at least until 2010 due to various outages. If right-of-center parties win enough seats in 2009 to form a majority in Parliament, the nation's nuclear phase-out policy is likely to be abandoned, which could enable the reactors to obtain lifespan extensions.

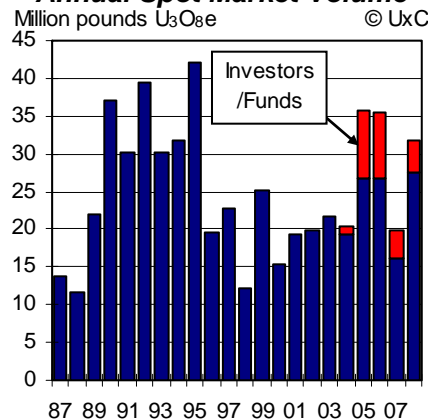
## Nuclear renaissance reaches Italy

According to an October 16 Reuters article, Italy is taking steps to limit its dependence on foreign energy and is doing so by planning to construct new nuclear power plants. It is Italy's intention to begin building eight to ten European Pressurized Reactors, with construction of the first reactor beginning in 2013. Italy's Energy Minister, Claudio Scajola is looking for his country to become more energy self-sufficient by replacing its 80 percent foreign-made energy with homegrown nuclear power.

Ux U<sub>3</sub>O<sub>8</sub> Price vs. Spot Volume by Method



Annual Spot Market Volume



However, analysts predict that Scajola will face serious opposition in his quest to bring these reactors online as Italy has had a nuclear power referendum which ended nuclear power for the country in the wake of the 1987 Chernobyl nuclear disaster.

Scajola is also seeking "International cooperation between countries and programs" in order to create a more diverse and capable nuclear community. Hence, Italy's largest utility, Enel SpA, entered into a deal a year ago that gave Italy a 12.5 percent stake in the Flamanville reactor in France, with an option to invest in five more French reactors. Scajola sees it as "likely" that Italy's utility Enel SpA will also take partial ownership of France's second EPR, which will be constructed by AREVA.

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### ***Mitsui to acquire 49% interest in Uranium One's Honeymoon project***

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Uranium One Inc announced October 15 that it reached an agreement with Japanese industrial firm, Mitsui & Co. Ltd. to create joint ventures in relation to Uranium One's Australian uranium assets. The agreement allows Mitsui to acquire a 49% interest in both the Honeymoon project in South Australia, and Uranium One's Australian uranium exploration properties. This agreement encompasses Uranium One's Goulds Dam and Billeroo projects and other potential uranium prospects like the Stuart Shelf and the Eyre Peninsula.

The joint venture between the two companies will come at the cost of A\$104 million to Mitsui for its 49% share of Uranium One's Australian mines and prospects. It is expected that Uranium One will use this cash commitment to advance the current status of the Honeymoon project to full commercial production. The Honeymoon project could potentially start commercial production near the end of 2009 or 2010, with annual production of 400 t U<sub>3</sub>O<sub>8</sub> (~880,000 pounds U<sub>3</sub>O<sub>8</sub>) for a production period of

six years. However, it is important to note that this transaction is still outstanding and subject to certain regulatory approvals, including Australian government regulatory approvals, which are expected by the end of the year.

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### ***BHP studying 5-stage Olympic Dam expansion***

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BHP Billiton Ltd. is studying a five-stage expansion of its Olympic Dam mine and stated last week that a development decision would be made based on the long-term demand outlook for copper and uranium. "We have to make decisions now on how we see demand 20 years out," said BHP uranium unit president Graeme Hunt at an industry briefing in Adelaide. "This is not a project we can move too quick with," he added.

According to estimates made last year by Merrill Lynch & Co. and JPMorgan Chase & Co., the cost of the Olympic Dam expansion may rise threefold to A\$15 billion. "Obviously it's a very big investment," Hunt said. "What's important is that we take it a step at a time. We need to get it right."

Meanwhile, Hunt said the environmental impact statement (EIS) for the expansion would run through all of 2009. "Our plans need to be well developed and understood before they are put to our board and government for approval." Hunt added, "So the earliest possible environmental approval, based on what we understand to be the likely time-frame, and recognizing we don't have control of that, is early 2010."

At the briefing, BHP also stated that it has ruled out a new smelter for the Olympic Dam expansion. Mr. Hunt said the company had given "very careful consideration" to processing options at the copper, uranium and gold mine, but that the mine had sufficient processing facilities to handle all output. "BHP Billiton proposes to change this in the expanded operation, with some of the product to be sold as concentrate rather than refined metal," stated Hunt. He went on to say, "While we do not plan to

build a new smelter at Olympic Dam, we will be building major new infrastructure, including a desalination plant, possibly an on-site gas-fired power station, and a railway."

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### ***ERA increases Ranger output 31% over second quarter***

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Energy Resources of Australia Ltd. (ERA) reported October 14 that uranium production of 1,349 t U<sub>3</sub>O<sub>8</sub> (~2.97 million pounds U<sub>3</sub>O<sub>8</sub>) from its Ranger mill was 31 percent higher than the June 2008 quarter due to the reestablishment of access to higher grade ore at the bottom of the Ranger pit. This allowed the average head grade in the third quarter to increase to 0.32% U<sub>3</sub>O<sub>8</sub> compared with 0.22% U<sub>3</sub>O<sub>8</sub> in the second quarter. Production during the first nine months of 2008 totaled 3,706 t U<sub>3</sub>O<sub>8</sub> (~8.17 million pounds U<sub>3</sub>O<sub>8</sub>). Production for the full year is expected to be slightly below the 11.9 million pounds U<sub>3</sub>O<sub>8</sub> achieved in 2007.

Ore mined at Ranger was 80% higher than both the corresponding quarter in 2007 and the second quarter of 2008 as the increased mining fleet concentrated on the recovery of ore at the bottom of the pit.

During the third quarter, the company's exploration and evaluation program focused on the northern extension of the Ranger 3 Deeps area. Expenditure on exploration and evaluation for the quarter was A\$4.2 million for a total of A\$12.2 million for the nine months ending September 2008. There were 48 drill holes completed for a total of 14,602 meters during the quarter. Drilling in the fourth quarter will continue to focus on the Ranger 3 Deeps area.

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### ***Rio Tinto's share of third quarter U<sub>3</sub>O<sub>8</sub> production jumps 11% over previous quarter***

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In Rio Tinto's "Third Quarter 2008 Operations Review," the company reported that its share of uranium production from the Rössing mine in Namibia and Ranger mine in Australia totaled

3,507,000 pounds U<sub>3</sub>O<sub>8</sub>, up 11% from 3,105,000 pounds U<sub>3</sub>O<sub>8</sub> in the second quarter of 2008.

Third quarter production from the Rössing mine in Namibia totaled 2,335,000 pounds U<sub>3</sub>O<sub>8</sub>, of which Rio Tinto's 68.6% interest accounted for 1,601,000 pounds U<sub>3</sub>O<sub>8</sub>. Higher grades at Rössing led to a 42% improvement in third quarter production compared to the same quarter of 2007, when a stripping campaign was being carried out. To date this year, the Rössing mine has produced 6,477,000 pounds U<sub>3</sub>O<sub>8</sub>.

Meanwhile, a total of 2,786,000 pounds U<sub>3</sub>O<sub>8</sub> were processed at ERA's Ranger mine during the recent third quarter, of which Rio Tinto's 68.4% interest accounted for 1,905,000 pounds U<sub>3</sub>O<sub>8</sub>. As noted in the previous news brief, access to higher grade ore areas was reestablished during the third quarter with a higher recovery rate compared to the second quarter of 2008. To date this year, the Ranger mine has produced 8,129,000 pounds U<sub>3</sub>O<sub>8</sub>.

Please note that despite Rio Tinto's ownership interests, Rio Tinto Uranium markets 100% of Rössing and Ranger production.

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### **Paladin Energy reports quarterly results**

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On October 15, Paladin Energy provided an update for the three-month period ended September 30, 2008. The company produced 650,554 pounds U<sub>3</sub>O<sub>8</sub> from its Langer Heinrich mine in Namibia, which equates to production of 2,602,239 pounds U<sub>3</sub>O<sub>8</sub> on an annualized basis. Sales for the quarter were US\$51 million comprising 878,000 pounds U<sub>3</sub>O<sub>8</sub> at an average realized price of US\$58 per pound U<sub>3</sub>O<sub>8</sub>, which now brings sales into line with original contract schedules.

At the Langer Heinrich processing plant, many initiatives in the crushing and scrubbing circuits have now been completed resulting in increased ore throughput rates. Design throughput of

4200 tonnes per day was exceeded with regularity during the latter part of the quarter and will gradually be increased across the next quarter as the Stage II construction nears completion and ramp-up begins. Stage II expansion will result in the Langer Heinrich project expanding production to 3.7 million pounds U<sub>3</sub>O<sub>8</sub> per year. All long-lead delivery items and bulk materials have been ordered, detailed engineering is 80% complete and the delivery of equipment to the site continues. The construction of the two additional leach tanks is progressing well and they are expected to be ready for hydro testing by late November and early December, respectively. Completion of the four new thickeners is forecast to be mid December. The IX expansion is complete and ready to receive the eight new columns, which are scheduled to arrive on site in October.

In addition to the Stage II expansion, a further study has been initiated to evaluate a third expansion to 6 million pounds U<sub>3</sub>O<sub>8</sub> per year for 2010. The study is scheduled for completion in November 2008 when it will be presented to the Board for consideration to move forward. Also, the potential for heap leaching of the low grade ore currently being stockpiled is also being explored.

Meanwhile, Paladin states that the Kayelekera uranium project in Malawi remains on schedule to commence commissioning and production ramp-up at the beginning of the March 2009 quarter, as the project is currently 75% complete and on budget. Once ramp-up is completed, Kayelekera will produce an expected 3.3 million pounds U<sub>3</sub>O<sub>8</sub> per year. Open pit mining activities are in full operation at Kayelekera, with ore scheduled to be delivered in readiness for commissioning in the March 2009 quarter. Paladin also reports that a sales contract linked to Kayelekera for 1.5 million pounds U<sub>3</sub>O<sub>8</sub> with an Asian utility for delivery over 2009 to 2011 has been reached. This contract does not reference the spot price.

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### **Kazakhstan, South Africa and Brazil ready to sell uranium to India**

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More than a month after an embargo was lifted on nuclear trade with India, Kazakhstan, Brazil and South Africa all stated last week that they support civil nuclear cooperation with India and are ready to sell the nation uranium.

Kazakh Deputy Foreign Minister Nurian Yermekbayev said his country is prepared to sell uranium to India to fuel its growing nuclear requirements. "We are waiting for a concrete proposal from India and are organizing bilateral meetings at the highest level for the uranium supply trade," said Yermekbayev to *Indo-Asian News Service (IANS)*. India and Kazakhstan are currently discussing dates for a meeting between Indian Prime Minister Singh and Kazakh President Nursultan Nazarbayev, during which uranium trade between the two countries is expected to be finalized.

Meanwhile, at the third summit of IBSA (India, Brazil, and South Africa), South African President Kgalema Motlanthe told reporters, "We have no objections to selling uranium to India," when asked whether his country will sell uranium to India after the September 6 NSG waiver that allowed India to resume nuclear trade. At the same meeting, Brazilian President Luiz Inacio Lula da Silva sidestepped the question, but a senior Brazilian official told the *IANS* that Brazil will be "happy" to sell uranium to India.

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### **Forsys Metals in takeover discussions**

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Forsys Metals Corp. announced October 14 that it is in exclusive negotiations with respect to a potential sale of the company. The company has retained CIBC World Markets Inc. as its financial advisor in connection with the process, but warns that no assurance can be given that negotiations will be successful.

The company owns 100% of the Valenciana uranium deposit in Namibia, which

recently received its mining license (ML 149). The Valencia project is projected to come online in 2010, producing 2.9 million pounds U<sub>3</sub>O<sub>8</sub> per year over 12 years. An updated NI 43-101 technical report for Valencia estimates total mineral resources to be 62.1 million pounds U<sub>3</sub>O<sub>8</sub> at 0.012% U<sub>3</sub>O<sub>8</sub>. Capital requirements for the Valencia mine comprise start-up capital of US\$188 million and sustaining capital of US\$39 million.

### Virginia Coal and Energy Commission to propose uranium study

Delegate Terry Kilgore (R-Scott County) announced October 10 that the Virginia Coal and Energy Commission will meet November 6 at 10:00 AM in the General Assembly Building in Richmond, Virginia to propose and adopt a study of uranium development in Virginia, which includes Virginia Uranium's Coles Hill uranium deposit in Pittsylvania County. Accord-

ing to Kilgore, the proposed study will include a "close examination of all important aspects of uranium development" as they would be applied in Virginia.

In the announcement, Kilgore said, "The need for independent American sources of energy is a matter of national security and economic prosperity. We know that Virginia has a significant, high-quality uranium deposit and as Virginians and Americans, we have a responsibility to study the feasibility of mining it safely." Kilgore noted that the Coal and Energy Commission conducted a similar study on uranium mining in the 1980s.

Kilgore added that the commission will work the "affected locality and surrounding areas" to develop guidelines for the study. The state of Virginia has had a moratorium on uranium mining since 1982, but Virginia Uranium currently has a state permit to conduct exploratory drilling to verify its Coles Hill deposit,

which contains an estimated 119.0 million pounds U<sub>3</sub>O<sub>8</sub> at a cut-off grade of 0.025% U<sub>3</sub>O<sub>8</sub> based on an NI 43-101 technical report completed in June.

### Uranerz expands mineral holdings at North Reno Creek

Uranerz Energy Corporation reported October 7 that it acquired additional uranium leases within the company's North Reno Creek project area, which is located in Campbell County, Wyoming. The company is working to acquire the past exploration and development data for North Reno Creek, and may do some limited confirmation drilling to validate the historical information to support a NI 43-101 report. If warranted, environmental baseline work will begin thereafter with the goal of submitting an environmental permit application for ISR facilities as soon as possible.

It is planned that a preliminary economic assessment will also be performed during the preparation of the permit applications.

### Uranium Energy makes permitting progress, initiates cost-saving program

Uranium Energy Corp. said October 15 that it filed two Class I Non-hazardous Waste Disposal Well Applications (WDWA) with the Texas Commission on Environmental Quality (TCEQ) for the company's Goliad ISR uranium project in South Texas. The on-site wells will be used for the disposal of fluids associated with uranium recovery and aquifer restoration activities. As with the previously filed Mine Permit Application and Production Area Authorization Application, TCEQ will conduct administrative and technical reviews of the WDWA's.

The company also announced that it is implementing a series of cost-saving programs by reassessing field personnel and postponing planned expenditures on non-core initiatives. Uranium Energy is postponing planned exploration programs for its Colorado Plateau projects and reorganizing resources to adjust to the reduced number of work programs outside of Texas.

### Aurora Energy to hold public meetings in Labrador

Aurora Energy announced October 15 that it will be holding a series of seven informational sessions called "mining and the future" with residents of Labrador, which will offer community members the opportunity to learn more about the mining process and the company's proposed Michelin project. According to Chesley Anderson, Aurora's VP of Labrador Affairs, "The sessions will help people understand the proposed mine in the context of other mines in Labrador and in Canada, and the potential benefits." In addition to discussing common mining and milling practices, the company will highlight its environmental safeguards.

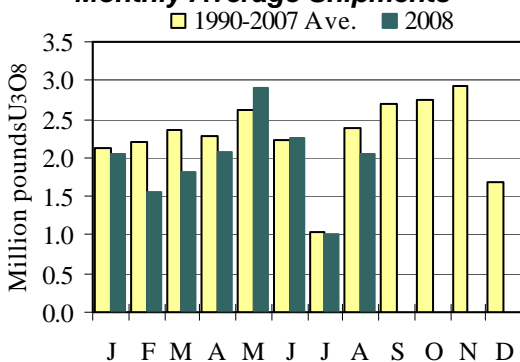
### Canadian Monthly Uranium Shipments (million pounds U<sub>3</sub>O<sub>8</sub>)

	2001	2002	2003	2004	2005	2006	2007	2008
<b>J</b>	3.15	2.33	2.63	3.00	2.97	1.39	1.86	2.05
<b>F</b>	2.61	3.19	1.81	2.41	2.82	1.52	1.21	1.54
<b>M</b>	3.26	2.85	3.00	2.77	2.13	1.57	1.20	1.82
<b>A</b>	2.79	2.67	2.22	2.80	3.20	1.56	2.36	2.08
<b>M</b>	3.74	3.53	0.98	2.58	2.53	2.66	2.82	2.90
<b>J</b>	2.70	2.46	1.22	2.30	2.80	2.41	1.36	2.26
<b>J</b>	0.77	1.34	0.96	0.74	1.78	0.86	2.21	1.01
<b>A</b>	2.67	2.70	2.41	2.61	3.60	3.31	1.76	2.06
<b>S</b>	3.70	2.81	2.42	2.51	3.16	2.42	1.57	
<b>O</b>	3.94	2.91	2.98	3.33	2.12	2.39	2.26	
<b>N</b>	3.18	4.42	3.32	3.34	4.32	3.33	3.27	
<b>D</b>	1.28	2.23	1.89	1.61	1.32	2.02	1.78	
	<b>33.78</b>	<b>33.42</b>	<b>25.84</b>	<b>30.02</b>	<b>32.75</b>	<b>25.43</b>	<b>23.66</b>	<b>15.72</b>

Note: Values reported are of mine shipments and do not reflect deliveries to end users.

Source: Natural Resources Canada

### 2008 Canadian Monthly U Shipments vs. Monthly Average Shipments



# The Market

## Uranium

Downward pressure on the spot market is still being felt as sellers continue to reduce their offer prices and respond to lower bid levels to place additional material. While there is currently a relatively wide bid/offer range being shown, some deals were concluded last week as a middle ground was found. Based on current offers of which UxC is aware, the Ux U<sub>3</sub>O<sub>8</sub> Price falls to \$44.00 per pound, down \$2 for the week and over \$20 from the price plateau of \$64.50 in September.

As stated above, there was additional market activity last week, and coupled with previous activity which has come to light, total volume for the year is 31.8 million pounds U<sub>3</sub>O<sub>8</sub>e. Lower prices are creating additional buying interest, as a non-U.S. utility has re-entered the market for another 450,000 pounds, with offers due on October 21<sup>st</sup>. This buyer is looking for up to three lots with delivery anytime between award date and April 30, 2009. Other utilities are also looking to buy on a less formal basis now that price has fallen to even more attractive levels. Plus, lower prices can

stimulate demand from additional buyer classes as well. On the selling side, a non-U.S. seller has bids due October 31<sup>st</sup> for a small amount of enriched uranium product (EUP) as feed (just over 12,000 kgU as UF<sub>6</sub> or about 32,250 pounds U<sub>3</sub>O<sub>8</sub> equivalent) and SWU credits with delivery by December 19<sup>th</sup>

The key question is at what point will demand be sufficient to clear the more aggressively priced material from the market. For a while we have heard that there are 500,000-1,000,000 pounds remaining to be sold at then market prices or below, but obviously there has been much more material for sale than this as volume over the past eight weeks has been about 9.4 million pounds. (This is net volume, taking out material which we know has been purchased and resold.)

In truth, we are in a very dynamic situation where sellers' approach to the market is constantly changing, due in large part to the fallout from the financial crisis. Buyers' situations are also changing, chiefly due to the price decline, making uranium purchases more attractive, although buyers are also subject to the financial crisis from a budgetary standpoint. In this paradigm, it is obvi-

Ux Price Indicators (€Equiv**)			
<b>Weekly (10/20/08)</b> 1 US\$ = .75029€			
<b>Ux U<sub>3</sub>O<sub>8</sub> Price</b>	<b>\$44.00</b>	<b>€33.01</b>	
<b>Mth-end (9/29/08)</b> 1 US\$ = .69277€			
<b>U<sub>3</sub>O<sub>8</sub></b>	Spot	<b>\$53.00</b>	€36.72
	Long-Term	<b>\$75.00</b>	€51.96
<b>Conversion</b>	NA Spot	<b>\$10.00</b>	€6.93
	NA Term	<b>\$12.25</b>	€8.49
	EU Spot	<b>\$11.50</b>	€7.97
<b>EU Term</b>		<b>\$13.50</b>	€9.35
	NA Price	<b>\$148.00</b>	€102.53
<b>U<sub>F</sub><sub>6</sub> Spot</b>	NA Value*	<b>\$148.48</b>	€102.86
	EU Value*	<b>\$149.98</b>	€103.90
	Spot	<b>\$159.00</b>	€110.15
<b>SWU</b>	Long-Term	<b>\$159.00</b>	€110.15
	NA Spot**	<b>\$2,508</b>	€1,737
<b>EUP</b>	NA Term**	<b>\$3,118</b>	€2,160

ous that the lower price falls, the greater the demand will be, while the selling pressures associated with the financial crisis are external to the market, except for the fact that as price falls, more pounds must be sold to achieve a certain level of revenue, and the general weakness in the market may prompt some suppliers to sell now before price drops further – decisions which, of course, tend to accelerate the decline in price.

Against this backdrop, there does seem to be decent buying interest at

UxC Market Statistics				
Monthly (Oct)	Spot		Term	
	Volume	# Deals	Volume	# Deals
U <sub>3</sub> O <sub>8</sub> e (million lbs)	2.3	12	0	0
Conv. (thousand kgU)	W	1	0	0
SWU (thousand SWU)	0	0	0	0
2008 Y-T-D	Spot		Term	
	Volume	# Deals	Volume	# Deals
U <sub>3</sub> O <sub>8</sub> e (million lbs)	31.8	158	>109.0	34
Conv. (thousand kgU)	4,606	36	>34,000	13
SWU (thousand SWU)	>1,500	12	58,000	12

Key: N/A – Not available. W – Withheld due to client confidentiality.

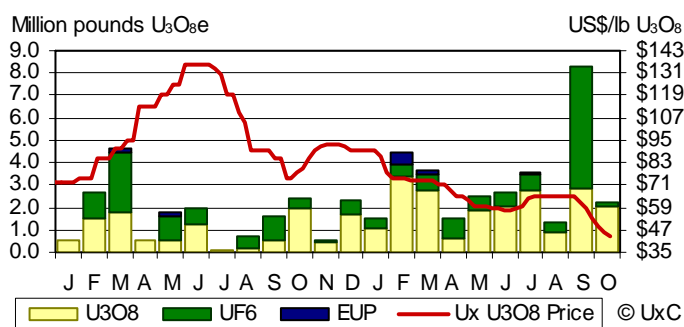
### UxC Leading Price Indicators

Three-month forward looking price indicators, with publication delayed one month. Readings as of Sep 2008.

<b>Uranium</b> (Range: -17 to +17)	<b>+3</b> [down 1 point]
<b>Conversion</b> (Range: -16 to +16)	<b>+6</b> [unchanged]
<b>Enrichment</b> (Range: -18 to +18)	<b>+8</b> [unchanged]

<b>Platts Forward Uranium Indicator</b>	<b>\$39.00-\$47.00</b>
A forward two-week outlook.	As of 10/20/08 (US\$/lb)

### Ux U<sub>3</sub>O<sub>8</sub> Price vs. Spot Volume by Form



### Humor for Lexophiles

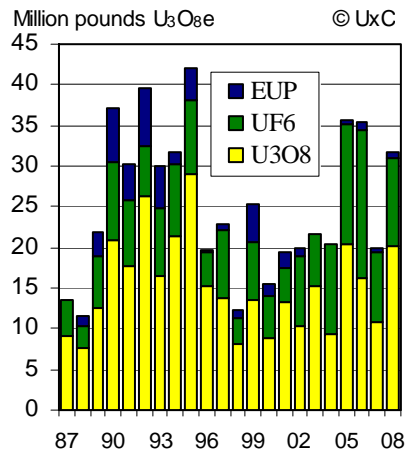
I wondered why the baseball was getting bigger. Then it hit me. To write with a broken pencil is pointless. Police were called to a day care where a 3 year old was resisting a rest. When the smog lifts in Los Angeles, U.C.L.A. A dentist and a manicurist fought tooth and nail. A bicycle can't stand alone; it is two tired. When you've seen one shopping center, you've seen a mall. Those who get too big for their britches will be exposed in the end. When fish are in schools, they sometimes take debate. The dead batteries were given out free of charge.



## Ux U<sub>3</sub>O<sub>8</sub> Prices



## Annual Spot Uranium Volumes



prices in the low \$40s, and we would suspect that even more would surface if/when price drops below \$40. This demand could receive a boost from speculative interests if it is perceived that a price bottom is forming and price is poised for a rebound, or especially once price starts to rebound, as that might give certain buyers confidence to

## Ux Price Indicator Definitions

The Ux Prices indicate, subject to the terms listed, the most competitive offers available for the respective product or service of which The Ux Consulting Company, LLC (UxC) is aware. The Ux U<sub>3</sub>O<sub>8</sub> Price (Spot) includes conditions for delivery timeframe (≤ 3 months), quantity (≥ 100,000 pounds), and origin considerations, and is published weekly. The Ux LT U<sub>3</sub>O<sub>8</sub> Price (Long-Term) includes conditions for escalation (from current quarter), delivery timeframe (≥ 24 months), and quantity flexibility (up to ±10%) considerations. The Ux Conversion Prices consider offers for delivery up to twelve months forward (Spot) and base-escalated long-term offers (LT) for multi-annual deliveries with delivery in North America (NA) or Europe (EU). The Ux NA UF<sub>6</sub> Price includes conditions for delivery timeframe (6 months), quantity (50-150,000 kgU), and delivery considerations. \*The Ux NA and EU UF<sub>6</sub> Values represent the sum of the component conversion and U<sub>3</sub>O<sub>8</sub> (multiplied by 2.61285) spot prices as discussed above and, therefore, do not necessarily represent the most competitive UF<sub>6</sub> spot offers available. The Ux SWU Price (Spot) considers spot offers for deliveries up to twelve months forward for other than Russian-origin SWU. The Ux LT SWU Price (Long-Term) reflects base-escalated long-term offers for multi-annual deliveries. \*\*The Ux Spot and Term EUP Values represent calculated prices per kgU of enriched uranium product based on a product assay of 4.50% and a tails assay of 0.30%, using spot and term Ux NA and appropriate spot and term price indicators and are provided for comparison purposes only. All prices, except for the weekly Ux U<sub>3</sub>O<sub>8</sub> Price, are published the last Monday of each month. (Units: U<sub>3</sub>O<sub>8</sub> = US\$ per pound, Conversion/UF<sub>6</sub>: US\$ per kgU, SWU: US\$ per SWU, EUP: US\$ per kgU) The Ux Prices represent neither an offer to sell nor a bid to buy the products or services listed. \*\*The Euro price equivalents are based on exchange rate estimates at the time of publication and are for comparison purposes only.

enter the market.

In the term market, a U.S. utility has offers due November 14<sup>th</sup> for 1.8 million pounds U<sub>3</sub>O<sub>8</sub>e plus optional quantities as either U<sub>3</sub>O<sub>8</sub> or UF<sub>6</sub>. The delivery time period covers 2013 to 2018, with optional deliveries through 2020. Another U.S. utility is finalizing its evaluation of offers based on its request for 300,000 pounds U<sub>3</sub>O<sub>8</sub> with delivery over a three-year period. Several other utilities also remain evaluating offers or are in negotiations with suppliers with an interesting mix of mid-term and long-term delivery coverage.

## U<sub>3</sub>O<sub>8</sub> Physical Forwards Market

Both Tullett Prebon and MF Global are showing a bid/offer range of \$42/\$47 for November delivery, but buying interest at \$42 is relatively light, with greater interest at \$40 for subsequent months (see tables on the following page). It is interesting to note that the shown buying interest exceeds the selling interest that is indicated, but it is undoubtedly the case that all the selling interest is not being shown (both known to these companies as well as the market at large.)

The fund implied price (FIP) ended down again last week as trading was mixed with the price increasing back over \$35 early in the week before falling to under \$31 today (Monday). As such, it still resides significantly below the spot price in the physical market.

## U<sub>3</sub>O<sub>8</sub> Futures Market

There was little activity reported on the NYMEX uranium futures exchange last week. While no contracts were reported, open interest fell by 462 contracts. With the final settlement of the September contracts (a total of 62), an adjustment for the October 2009 settlement month was made, dropping open interest from 800 down to 400, erasing the increase posted the previous week. Total open interest now stands at 2,644 contracts or 661,000 pounds U<sub>3</sub>O<sub>8</sub>. After last Monday's downward adjustment in the forward price curve, there were no additional changes this week as shown in the middle right chart on the next page.

## Conversion & UF<sub>6</sub>

Term offers are due November 14<sup>th</sup> to a U.S. utility for about 690,000 kgU as UF<sub>6</sub> with delivery in 2013-2018, and optional quantities through 2020. A non-U.S. seller is offering a small amount of spot UF<sub>6</sub> credits totaling about 12,000 kgU. No other activity is reported for conversion over the past week.

## Enrichment & EUP

A non-U.S. seller has bids due October 31<sup>st</sup> to place a small amount of enriched uranium product (EUP) containing about 7,750 SWU with delivery by December 19<sup>th</sup>. Outside of this supply offer, little other enrichment activity is reported over the past week with no new demand or transactions listed.

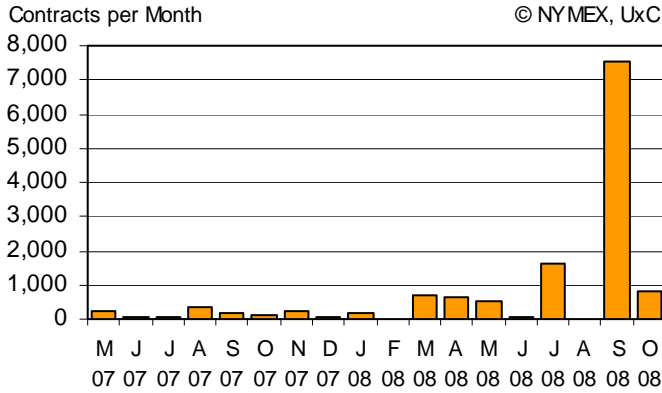
The Platts Forward Uranium Indicator price range belongs to Platts, a McGraw Hill Company, and is published with permission. Definitions of these prices are available from their original source.

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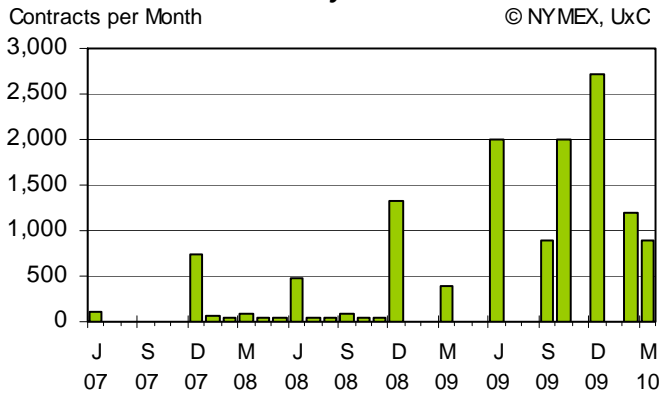
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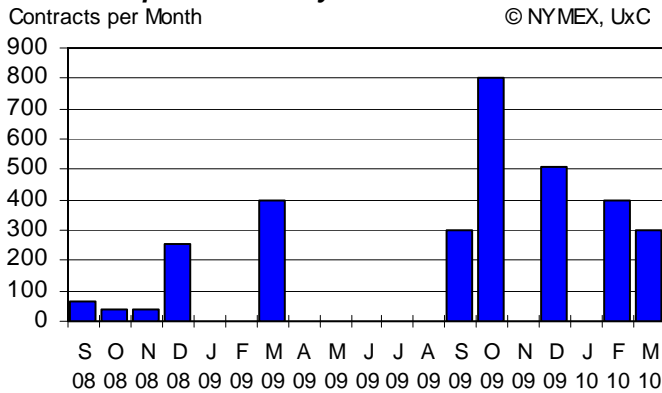
**NYMEX UX Futures Activity**  
**Total Contracts by Transaction Month**



**Total Contracts by Settlement Month**



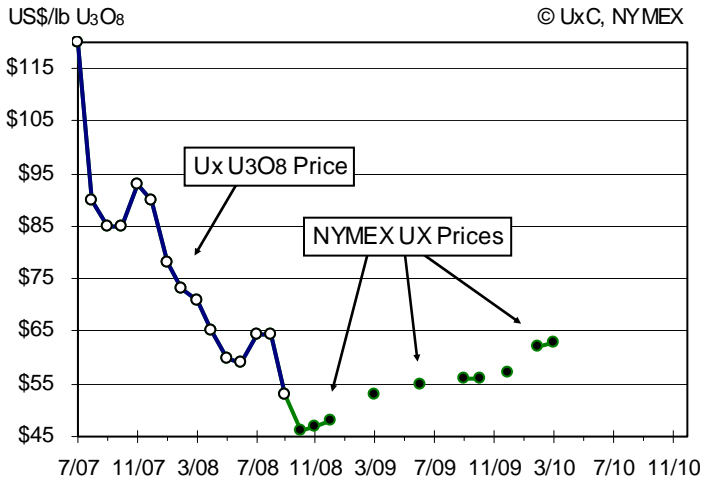
**Open Interest by Settlement Month**



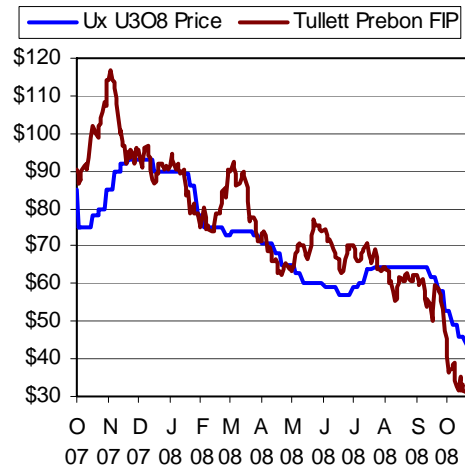
**NYMEX UxC Uranium U<sub>3</sub>O<sub>8</sub> (UX) Futures Activity**

Prices as of 10/20/08		Activity for 5/7/07-10/17/08			
Settlement	Price	Volume	Open	High	Low
Jun 2007	\$136.00	108	N/A	\$148.00	\$130.00
Jul 2007	\$120.00	1	N/A	\$140.00	\$140.00
Dec 2007	\$90.00	744	N/A	\$159.00	\$58.00
Jan 2008	\$78.00	76	N/A	\$151.00	\$70.00
Feb 2008	\$73.00	42	N/A	\$126.00	\$80.00
Mar 2008	\$71.00	97	N/A	\$119.00	\$80.00
Apr 2008	\$65.00	41	N/A	\$119.00	\$75.00
May 2008	\$60.00	42	N/A	\$119.00	\$75.00
Jun 2008	\$59.00	478	N/A	\$119.00	\$56.00
Jul 2008	\$64.50	41	N/A	\$117.00	\$63.00
Aug 2008	\$64.50	40	N/A	\$117.00	\$75.00
Sep 2008	\$53.00	81	N/A	\$117.00	\$84.00
Oct 2008	\$46.00	40	40	\$117.00	\$70.00
Nov 2008	\$47.00	40	40	\$117.00	\$75.00
Dec 2008	\$48.00	1322	254	\$117.00	\$59.50
Mar 2009	\$53.00	400	400	N/A	N/A
Jun 2009	\$55.00	2001	1	\$67.00	\$67.00
Sep 2009	\$56.00	900	300	N/A	N/A
Oct 2009	\$56.00	2000	400	N/A	N/A
Dec 2009	\$57.00	2717	509	\$85.00	\$85.00
Feb 2010	\$62.00	1200	400	N/A	N/A
Mar 2010	\$63.00	900	300	N/A	N/A
<b>Totals:</b>		<b>13,311</b>	<b>2,644</b>		

**Ux U<sub>3</sub>O<sub>8</sub> Price vs. NYMEX UX Futures Prices**



**Ux U<sub>3</sub>O<sub>8</sub> Price vs. Tullett Prebon FIP**



Fund Implied Price (FIP) as of COB 10/20/08 (US\$/lb U <sub>3</sub> O <sub>8</sub> )	
Tullett Prebon	MF Global (as of 10/17/08)
\$30.84 (-1.18%)	\$32.75 (182,145 lbs)

Tullett Prebon Physical Forwards Activity as of 10/20/08			
COD: Converter Delivered – Bid / Ask Offer Ranges US\$/lb U <sub>3</sub> O <sub>8</sub> (* form as UF <sub>6</sub> )			
Delivery Month	USA-ConverDyn	Europe-Comurhex	Canada-Cameco
Nov 2008	\$42x50K / \$47x100K	/ \$50-50K	/
Dec 2008	\$40x100K /	/	/
Jan 2009	\$40x100K /	/	/

MF Global Physical Forwards Activity as of 10/20/08			
COD: Converter Delivered – Bid / Ask Offer Ranges US\$/lb U <sub>3</sub> O <sub>8</sub> (* form as UF <sub>6</sub> )			
Delivery Month	USA-ConverDyn	Europe-Comurhex	Canada-Cameco
Nov 2008	\$42x50K / \$47x50K	/	/
Dec 2008	\$42x50K / \$47x100K	/ \$50-75K	/
Jan 2009	\$40x100K / \$48x100K	Interest /	/